Section 1: Complete Formulas and Accounting Identities (Full Forms)

Fundamental Conversion Rules

1. Gross Value − Depreciation (Consumption of Fixed Capital) = Net Value
2. Domestic Product + Net Factor Income from Abroad = National Product
3. Market Price − Net Indirect Taxes = Factor Cost
4. Net Indirect Taxes = Indirect Taxes − Subsidies
5. Net Factor Income from Abroad = Factor Income Earned from Abroad − Factor Income Paid to Abroad
6. Change in Stock = Closing Stock − Opening Stock
7. Net Exports = Exports − Imports

Three Methods of Measuring National Income

Method 1: Value Added Method (Product Method)

• Value of Output = Sales + Change in Stock (Closing Stock − Opening Stock)

• Gross Value Added at Market Price = Value of Output − Intermediate Consumption

• Gross Domestic Product at Market Price (GDP) = Sum of Gross Value Added at Market Price of all producing sectors

• Net Value Added at Factor Cost = Gross Value Added at Market Price − Depreciation − Net Indirect Taxes

Method 2: Income Method

• Net Domestic Product at Factor Cost (NDP) = Compensation of Employees + Operating Surplus + Mixed Income of Self-Employed

• Compensation of Employees = Wages and Salaries in Cash + Wages and Salaries in Kind + Employers' Contribution to Social Security Schemes

• Operating Surplus = Rent + Royalty + Interest + Profit

• Profit = Corporate Tax + Dividend + Retained Earnings (Undistributed Profit)

• Net National Product at Factor Cost (National Income) = Net Domestic Product at Factor Cost (NDP) + Net Factor Income from Abroad

Method 3: Expenditure Method

• Gross Domestic Product at Market Price (GDP) = Private Final Consumption Expenditure + Government Final Consumption Expenditure + Gross Domestic Capital Formation + Net Exports

• Gross Domestic Capital Formation = Gross Domestic Fixed Capital Formation + Change in Stock (Closing Stock − Opening Stock)

• Gross Domestic Capital Formation = Net Domestic Capital Formation + Depreciation

• Net National Product at Factor Cost (National Income) = Gross Domestic Product at Market Price (GDP) − Depreciation + Net Factor Income from Abroad − Net Indirect Taxes

Real Income, Nominal Income, and Welfare Formulas

- Real Gross Domestic Product (GDP) = (Nominal Gross Domestic Product (GDP) / Price Index) × 100
- Nominal Gross Domestic Product (GDP) = (Real Gross Domestic Product (GDP) × Price Index) / 100
- Gross Domestic Product (GDP) Deflator = (Nominal Gross Domestic Product (GDP) / Real Gross Domestic Product (GDP)) × 100
- Per Capita Income = Net National Product at Factor Cost (National Income) / Total Population
- Personal Disposable Income = Personal Income − Direct Personal Taxes − Miscellaneous Receipts of the Government Administrative Departments

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